

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT OFFICE



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CALIFORNIA DRIED PLUM BOARD
AUDIT REPORT #08-078

CALIFORNIA DRIED PLUM BOARD
AUDIT REPORT

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Evelyn Yee, CPA
Melma Dizon

Audit Chief
Assistant Audit Chief
Audit Supervisor
Auditor

AUDIT REPORT NUMBER
08-078

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Mr. Robert Maxie, Branch Chief
Marketing Services
California Department of Food and Agriculture
1220 N Street
Sacramento, California 95814

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the Audit Office perform a limited scope fiscal and compliance audit of California Dried Plum Board (CDPB). The objective of this audit was to determine whether certain activities and expenditures incurred by the CDPB comply with the law and are within Board authority. In addition, our office was to identify any internal control weaknesses we noted upon examination of the CDPB's financial records.

The audit scope was limited by the Marketing Branch as it related to certain expenditures. Most notably, the Marketing Branch has allowed the State's marketing orders to implement a travel policy that can be applied retroactively to the audit period. This travel policy allows for the State's marketing orders to incur lodging and per diem expenses up to three times the current State rate. Therefore, our office has been instructed to only report amounts that exceeded this threshold.

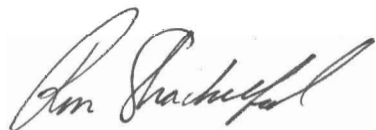
Furthermore, our audit scope was limited to the fiscal years 2005, 2006, and 2007. Although the scope was limited to these three years, our office expanded the scope to include information that covered other years if it was readily accessible and/or may have assisted us in understanding a particular issue.

To accomplish the overall audit objectives, our audit methodology consisted of, but was not all inclusive of, the following review of the CDPB's:

- Compliance with various rules and regulations
- Employee and Policy Manuals
- Internal controls
- General ledger detail and various financial related documents
- Board and Committee minutes
- Expenses and supporting documentation, including credit card statements and corresponding receipts for each charge
- Contracts
- Research grants
- Payroll documents

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States.

This audit report is intended solely for the information and use of the management of the CDFA and CDPB and should not be used for any other purpose.

A handwritten signature in black ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office
(916) 651-8774

EXECUTIVE SUMMARY

The California Department of Food and Agriculture (CDFA), Division of Marketing Services, Marketing Branch, requested the CDFA Audit Office to perform a limited scope fiscal and compliance audit of the California Dried Plum Board (CDPB) to determine whether certain activities and expenditures incurred comply with the law and are within Board authority. In order to accomplish this, our primary focus was the CDPB's expenses and compliance with various rules and regulations. We noted the following administrative weaknesses:

- The CDPB has a memorandum of understanding with the Prune Marketing Committee (PMC) in which CDPB will provide management, financial, and administrative services to PMC. In return, PMC will reimburse CDPB an allocation of the shared expenses, such as payroll, office rent, copier usage and maintenance, etc. Currently, the shared expenses are allocated 90% to CDPB and 10% to PMC. This allocation is based on an estimation of time the employee predicts working on each entity's activities. Since CDPB does not require its employees to track the time that they work for each entity and there was no documentation demonstrating the analytical process and justification for using estimated data instead of actual data, there was no clear audit trail for us to review whether the allocation was reasonable based on the data used.
- Prior to May 2007, the CDPB did not maintain a detailed itemized receipt for all business meals incurred. The CDPB's support of these charges consisted of worksheets prepared that listed the date and amount of the meal, the individuals provided the meal, and the business purpose. A detailed itemized restaurant receipt provides transparency to the nature and reasonableness of the expense.
- The CDPB purchased alcohol. State law requires public money to be used to further a department's mission. Because CDPB was formed to identify new market opportunities through market research; increase consumption of dried plums in domestic and international markets through advertising, sales promotion, public relations, and product sampling; and conduct production, processing, and nutrition research to improve the quality and functionality of the product, it is our determination that alcohol purchases, regardless of the recipient, are not considered an expenditure that benefits the State or furthers the mission of the CDPB.

KEY RECOMMENDATIONS

1. *CDPB should maintain documentation demonstrating its analytical process and justification for using estimated data instead of actual data. Although the use of estimates is allowed, we strongly recommend the use of actual data to determine the allocation in order to provide a more accurate allocation.*
2. *If CDPB chooses to continue to use labor hours as a measure to determine the allocation, then CDPB should require its employees to maintain detailed time records to identify the amount of time spent performing each entity's activities.*
3. *The CDPB should ensure all employees that are provided a Board issued credit card are required to support all charges incurred, including business meals, with an itemized receipt. The receipt should be maintained within the credit card file along with the worksheets documenting the guests attending and business purpose of the meal.*
4. *The CDPB should only incur expenses necessary to support the mission of the CDPB.*

REPORTABLE FINDINGS

COST ALLOCATION

The California Dried Plum Board (CDPB) has a memorandum of understanding (MOU) with the Prune Marketing Committee (PMC), a Federal marketing order. Both are separate entities and have separate financial records, annual independent financial audits, checking and savings accounts. The most recent MOU effective August 1, 2005 indicates that CDPB will provide management, financial, and administrative services to PMC. PMC will reimburse CDPB for these services based on both Boards' approval on the cost allocation for shared expenses, such as payroll, office rent, and other overhead expenses. Furthermore, the MOU states the cost allocation will be reviewed annually.

Based on our testing, we noted CDPB wrote checks to and received checks from PMC during the course of our audit period. There were some shared expenses paid by PMC then reimbursed by CDPB because the contracts and invoices were in PMC's name. These expenses included the vehicle lease and the monthly maintenance and usage of the copier. For expenses including but not all inclusive of payroll, employee benefits, and office rent, CDPB would pay for these first and PMC would reimburse CDPB. Both entities tracked the expenses owed by the other entity and were repaid on a timely basis. Prior to our audit period, the shared expenses were allocated 60% to CDPB and 40% to PMC. Then, on August 1, 2005, the shared expenses were allocated 90% to CDPB and 10% to PMC. This large increase in allocation was due to the expected reduced workload for PMC because the industry approved to suspend outgoing inspection and grading standards, beginning August 1, 2005. Therefore, CDPB was no longer reviewing the tonnage reports, dealing with handlers for the inspections, enforcing existing standards, and establishing new standards for the industry for PMC.

Although the allocation was annually approved by both Boards with the annual budget, it appears the allocation was based on estimated data rather than actual data. The allocations were based upon discussion with employees regarding their time spent between each entity's activities. Since CDPB does not require its employees to track their time, there was no clear audit trail for us to review whether the allocation was reasonable based on the data used. CDPB should maintain documentation demonstrating that management compared actual data with the estimated data and justification as to the reason for using the estimated data to determine the allocation.

Recommendations

- 1. CDPB should maintain documentation demonstrating its analytical process and justification for determining their cost allocations between the two entities. Our office encourages the use of actual data to determine the allocation in order to provide a more accurate allocation.*
- 2. If CDPB chooses to continue to use labor hours as a measure to determine the allocation, then CDPB should require its employees to maintain detailed time records to identify the amount of time spent performing each entity's activities.*

EXPENDITURES

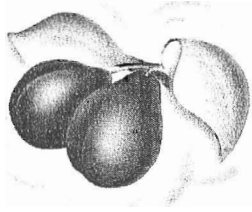
The CDPB provides a Board issued credit card to a manager for facilitating business related travel expenses. Our office examined the monthly credit card statements and noted that for the audit period the majority of expenses charged to the Board issued card were adequately supported with receipts and justifications. However, for the three-year audit period, our office noted approximately \$9,689 in restaurant charges on the credit card, which did not have the related detailed itemized restaurant receipt. The CDPB's support of these charges consisted of worksheets prepared that listed the date and amount of the meal, the individuals provided the meal, and the business purpose. The CDPB indicated that prior to May 2007, the necessity to retain the itemized receipt was not apparent. After May 2007, a receipt of the related restaurant charge was retained in a majority of the instances. A detailed itemized restaurant receipt provides transparency to the nature of the expense. Without the restaurant receipts, our office cannot attest to the reasonableness of the expenditure.

In addition, our review of the CDPB's expenses identified alcohol was purchased from May 2007 through July 2007 for Board members, clients, dignitaries, and employees. Since prior to May 2007 no receipts were provided for our review, we are unable to determine alcohol purchases made during that time period. State law requires public money to be used to further a department's mission. The CDPB was established to identify new market opportunities through market research; increase consumption of dried plums in domestic and international markets through advertising, sales promotion, public relations, and product sampling; and conduct production, processing, and nutrition research to improve the quality and functionality of the product. Although the amount noted is immaterial, the act of purchasing alcohol occurred and the expense does not appear to meet the purpose of CDPB.

Recommendations

3. *The CDPB should ensure all employees that are provided a Board issued credit card are required to support all charges incurred, including business meals, with an itemized receipt. The receipt should be maintained within the credit card file along with the worksheets documenting the guests attending and business purpose of the meal.*
4. *The CDPB should only incur expenses necessary to support the mission of the CDPB.*

CALIFORNIA DRIED PLUM BOARD'S RESPONSE



CALIFORNIA DRIED PLUM BOARD

3840 Rosin Court
Suite 170
Sacramento, CA 95834

Phone (916) 565-6232
Fax (916) 565-6237
www.CaliforniaDriedPlums.org

June 12, 2008

Mr. Ron Shackelford
Chief, Audit Office
California Department of Food & Agriculture
1220 N. Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford:

This responds to your Audit Report #08-078 for the California Dried Plum Board. I would like to express my appreciation for the professionalism and courtesy shown to my staff and me by Evelyn and Melma during our three week audit.

KEY RECOMMENDATIONS

1. *CDPB should maintain documentation demonstrating its analytical process and justification for using estimated data instead of actual data. Although the use of estimates is allowed, we strongly recommend the use of actual data to determine the allocation in order to provide a more accurate allocation.*

A more rigorous analytical process has been instituted to measure and record actual usage of employee time, equipment and office supplies whenever possible for both the California Dried Plum Board (CDPB) and the Prune Marketing Committee (PMC). This system was put in place on June 2, 2008.

2. *If CDPB chooses to continue to use labor hours as a measure to determine the allocation, then CDPB should require its employees to maintain detailed time records to identify the amount of time spent performing each entity's activities.*

Also effective June 2, 2008 employees began completing a time sheet allocating their work hours between the CDPB and the PMC.

3. *The CDPB should ensure all employees that are provided a Board issued credit card are required to support all charges incurred, including business meals, with an itemized receipt. The receipt should be maintained within the credit card file along with the worksheets documenting the guests attending and business purpose of the meal.*

The two employees who use CDPB-issued credit cards now support all charges incurred with itemized receipts. These are maintained within the credit card file along with worksheets documenting the guests attending and business purposes of meals.

4. *The CDPB should only incur expenses necessary to support the mission of the CDPB.*

The CDPB believes it has an excellent track record of only incurring expenses that are necessary to support its mission. The Executive Director plans to work with the CDPB to develop a more definitive policy on this subject that will be forwarded to CDFA's Marketing Branch for review.

If you require additional information please contact me.

Sincerely,

A handwritten signature in black ink that reads "Rich Peterson". The signature is written in a cursive, slightly stylized font.

Richard L. Peterson
Executive Director

Cc: Tim Smith
Dennis Manderfield

EMPLOYEE TIME SHEET*								
California Dried Plum Board/Prune Marketing Committee								
Month:			Month:					
Date:	CDPB	PMC	Total		CDPB	PMC	Total	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
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24								
25								
26								
27								
28								
29								
30								
31								
Total								
Employee Signature:								
Employee Name:								

* Enter time spent on each organization to nearest quarter hour (15 minutes)

C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the California Dried Plum Board (CDPB), for its review and response. We reviewed the response and it addresses the findings in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this report are based on fieldwork my staff performed March 24, 2008 through April 11, 2008. My staff met with management on April 11, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the CDFA and the CDPB for their review and action if necessary. However, once finalized this report is public document and its distribution is not restricted.

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	Chairman, California Dried Plum Board
1	Chief Executive Officer, California Dried Plum Board
1	Director, CDFA Marketing Services Division
1	Branch Chief, CDFA Marketing Branch
1	Chief Counsel, CDFA Legal Office
2	Chief, Audit Office